

**41ST NATIONAL CONFERENCE OF
REGULATORY ATTORNEYS**

**VALUATION OF ACQUIRED
WATER AND WASTEWATER
SYSTEMS**

SUSAN SIMMS MARSH
DEPUTY GENERAL COUNSEL

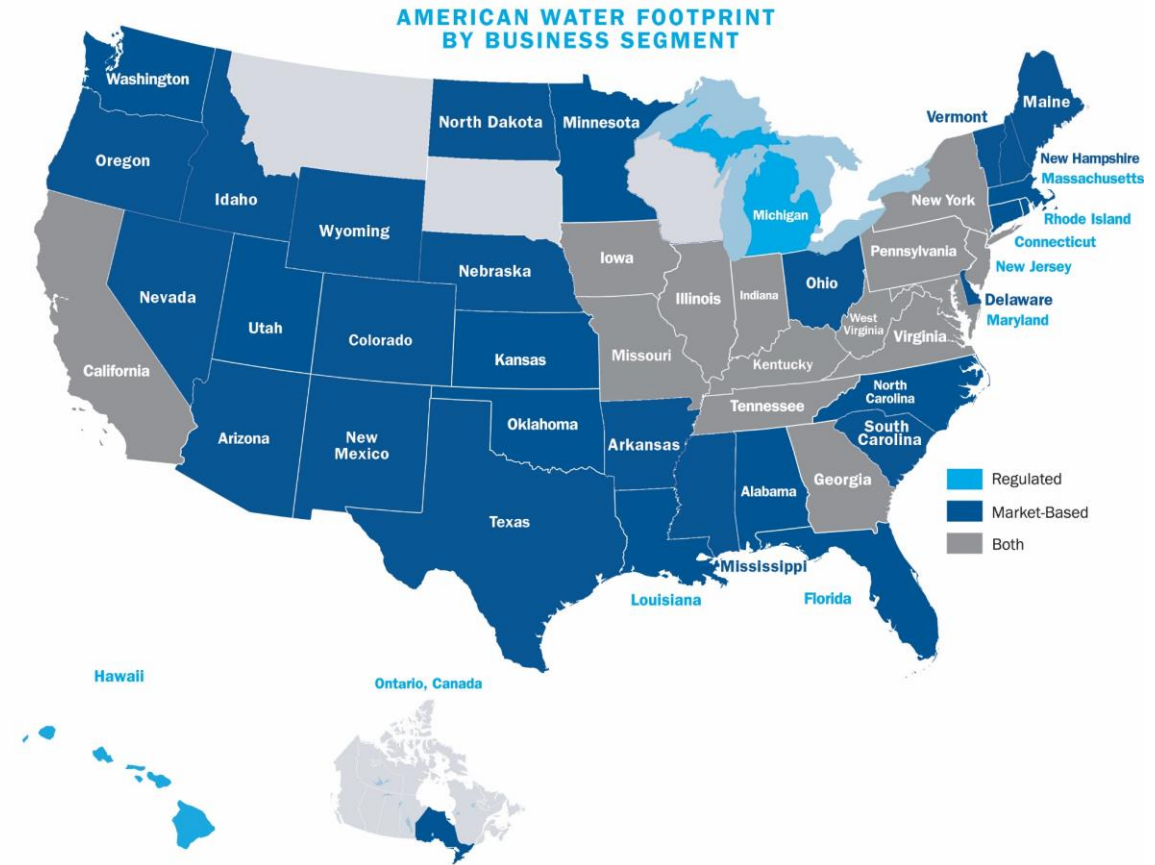


**PENNSYLVANIA
AMERICAN WATER**

WHO WE ARE

We are the largest and most geographically diverse publicly traded water and wastewater service provider in the United States.

- ★ We serve a broad national footprint and a strong local presence.
- ★ We provide services to approximately 15 million people in **46 states** and Ontario, Canada.
- ★ We employ **6,900** dedicated and active employees and support ongoing community support and corporate responsibility.
- ★ We treat and deliver more than **one billion** gallons of water daily.



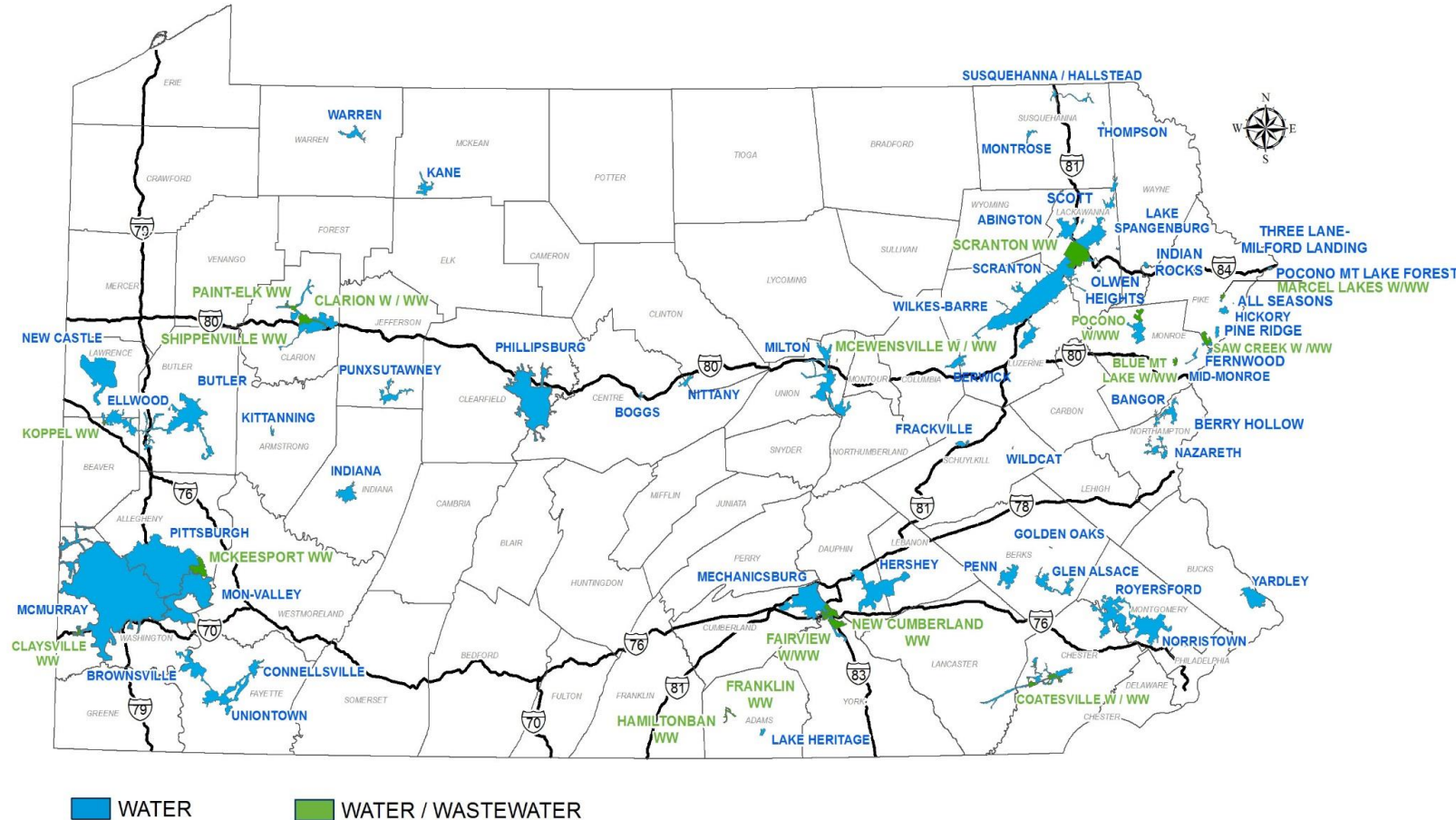
OUR COMPANY

- Subsidiary of American Water Works Co. Inc.
- Roots date back to early 1800s, Incorporated in 1904
- Largest regulated water and wastewater service provider in PA
- Approximately 1,000 employees



PENNSYLVANIA
AMERICAN WATER

OUR SERVICE AREA



WE SERVE

- Approx. **2.4 million people** in 36 counties (19% of the population)
- **658,000 water customers:**
 - 92% residential
 - 7% commercial
 - 1% industrial/other
- **65,000 wastewater customers**

OUR INFRASTRUCTURE

SOURCE OF SUPPLY

- 92% surface water, 7% groundwater and 1% purchased water
- 56 regulated dams
- 103 active groundwater sources

TREATMENT FACILITIES

36 surface water plants

- 33 Directors Awards from the Partnership for Safe Water
- Average Daily Delivery: 191 MGD

18 wastewater plants

- Capacity: 52 MGD permitted



TRANSMISSION & STORAGE

- 11,054 miles of water and sewer pipe
- 256 water storage facilities
- 359 water and wastewater pumping stations

OUR WASTEWATER SYSTEMS

ADAMS COUNTY

- Franklin
- Hamiltonban

ALLEGHENY COUNTY

- McKeesport

BEAVER COUNTY

- Koppel

CHESTER COUNTY

- Coatesville

CLARION COUNTY

- Clarion
- Paint-Elk
- Shippensburg

CUMBERLAND COUNTY

- New Cumberland

LACKAWANNA COUNTY

- Scranton

MONROE COUNTY

- Pocono
- Blue Mountain

NORTHUMBERLAND COUNTY

- McEwensville

PIKE COUNTY

- Saw Creek
- Marcel Lakes

WASHINGTON COUNTY

- Claysville

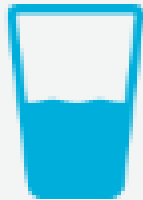
YORK COUNTY

- Fairview



PENNSYLVANIA
AMERICAN WATER

NATION'S INFRASTRUCTURE REPORT CARD



Drinking Water



Wastewater





PA's INFRASTRUCTURE REPORT CARD



DRINKING WATER



\$13.9 billion investment needed
over next 20 years to:

- Replace aging facilities
- Comply with safe drinking water regulations



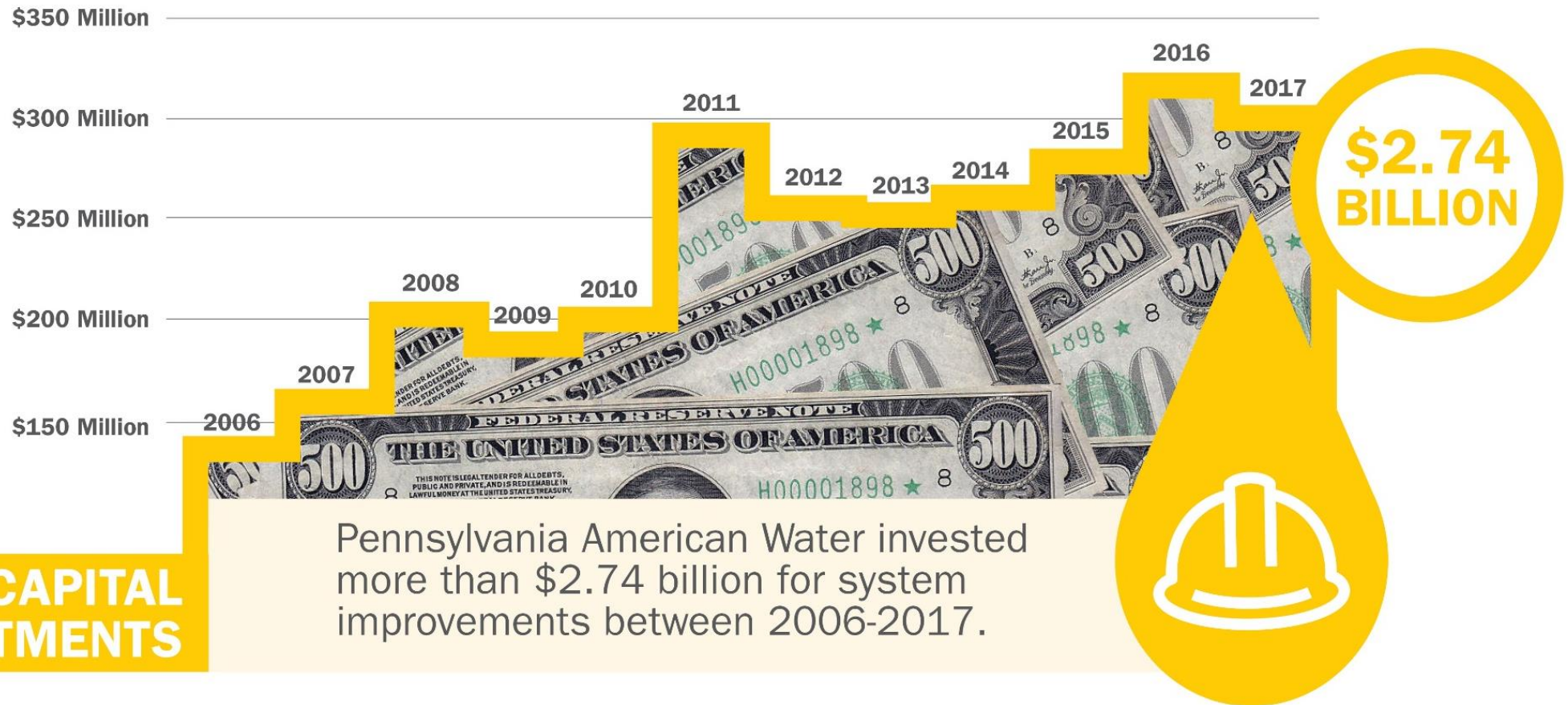
WASTEWATER



\$28 billion investment needed
over next 20 years to:

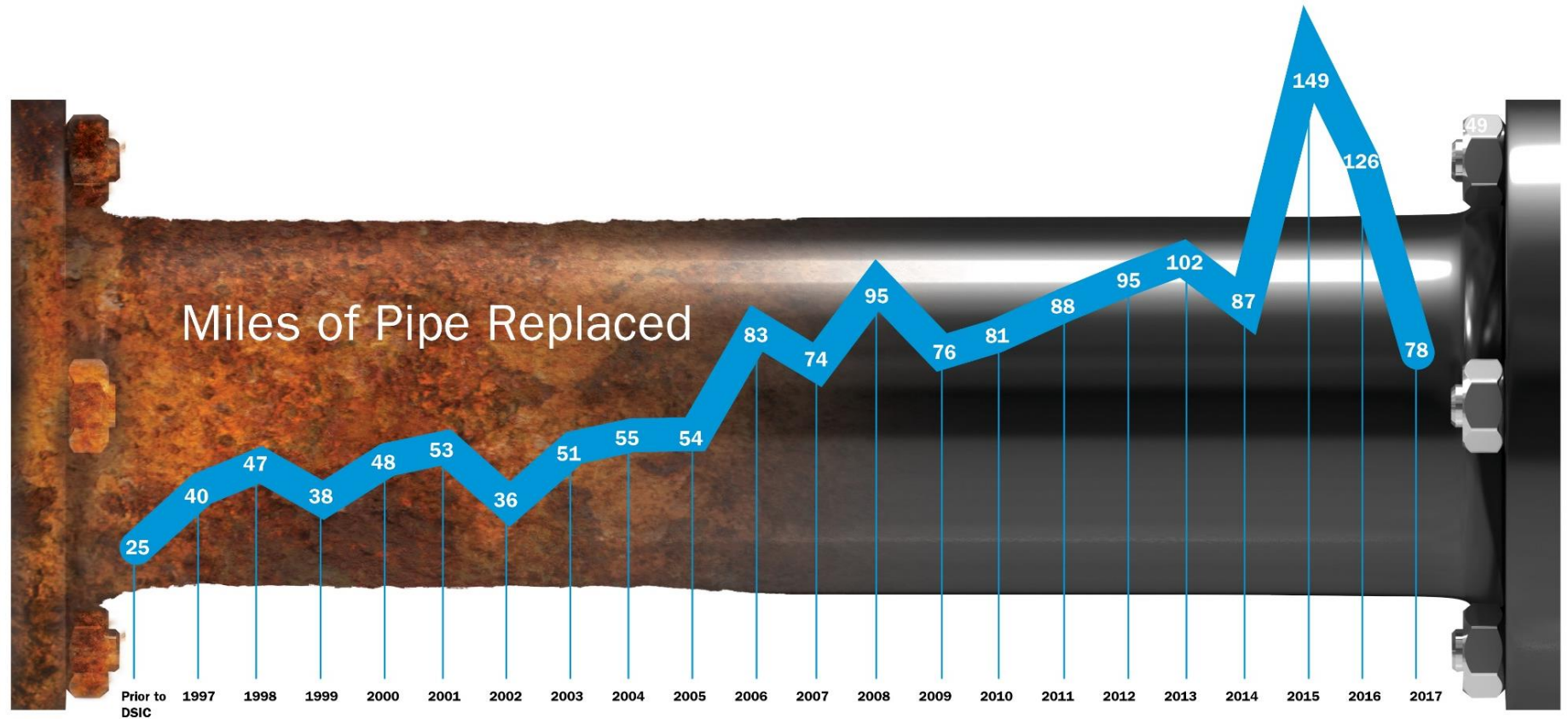
- Repair existing systems
- Meet clean water standards
- Build or expand existing systems to meet increasing demands

WE'RE INVESTED IN PENNSYLVANIA



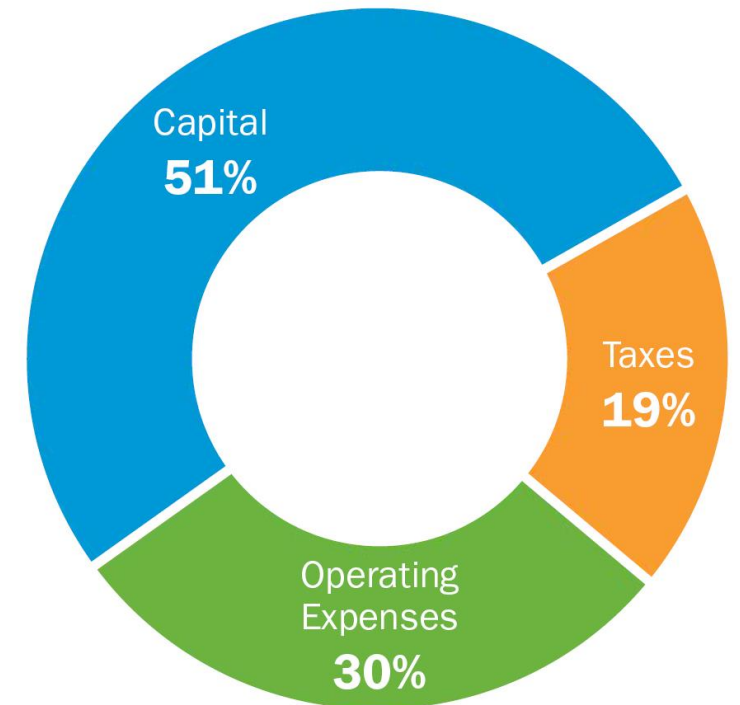
OUT WITH THE OLD

Over past two decades, more than 1,400 miles of main replaced



WHERE YOUR DOLLARS FLOW

- Each dollar of your monthly bill goes to:
 - 51% for system upgrades/improvements to maintain service reliability
 - 30% for operating expenses (e.g. power, fuel, chemicals)
 - 19% for costs associated with taxes



Pre Fair Market Value Legislation

66 Pa.C.S. § 1311

Original cost of construction less
accumulated depreciation rather than
acquisition cost

Small Nonviable Water and
Wastewater Systems Policy Statement



Act 12 of 2016 – Fair Market Value Law

- 66 Pa.C.S. § 1329
- April 14, 2016
- Valuation of the assets of municipally or authority-owned water and wastewater systems
- Valuation is lesser of the fair market value or the negotiated purchase price
- Post-acquisition improvement costs not recovered through DSIC can be deferred for book and ratemaking purposes

Act 12 of 2016 – Fair Market Value Law

- Voluntary between qualified buyers and sellers who elect to use the fair market value methodology
 - Buyer - water or wastewater public utility regulated by the PUC
 - Seller - water or wastewater entity owned by a municipal corporation or authority that is being purchased by an public utility or entity
- Buyer and seller retain Utility Valuation Expert to prepare appraisals of seller's tangible assets
- Fair market value is the average of the two appraisals
- Ratemaking rate base is the lesser of fair market value or purchase price
- PUC issue Final Order within six months

PUC Filings to Date

Pennsylvania American Water

Municipal Authority of the
City of McKeesport

Closed

Aqua Pennsylvania

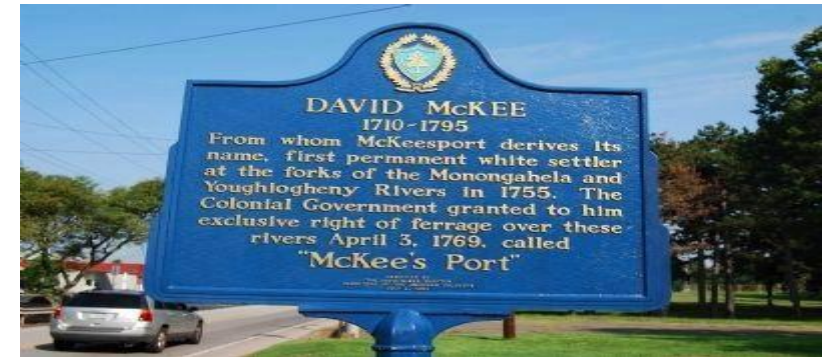
- New Garden Wastewater System
On Appeal Commonwealth Court
- Limerick Wastewater System
PUC Reconsideration Order 4.19.18

Municipal Authority of the City of McKeesport



City of McKeesport Background

- Incorporated 1891
- Early 1900s more steel pipe manufactured in the city than anywhere in the world
- Population peaked at 55,000 during the 1940's
- Decline of steel industry
- Present population: 19,273 (2016 US Census)



Challenges

- Diminished population
- Underfunded pension liabilities
- Needed street and infrastructure repair
- Low employment
- Keeping essential government services affordable
- Increased financing of wastewater system to support regulatory compliance



Search for a Solution

- 2013--Decision to lease the wastewater system
- Goals:
 - Avoid Act 47 and municipal bankruptcy
 - Maintain high level of service
 - Keep wastewater rates affordable
- 2015—Request for Qualifications
- Regional partner
- 2016-Request for Bid



Municipal Authority of the City of McKeesport (MACM)

- Closed December 2017
- First acquisition closed in PA under Act 12 of 2016 - Fair Market Value legislation
- Regional wastewater system serving 22,000 customers



PA American/McKeesport Timeline

Asset Purchase Agreement/
Amendment executed by Parties

Sept. 2016/
May 2017

June 2017

PA American files
Application with PA PUC

PA PUC Hearing

Aug. 3, 2017

Parties filed Joint Petition
for Approval of Settlement

Sept. 20, 2017

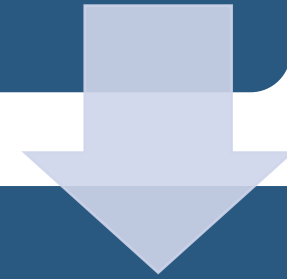
PA PUC enters Order
approving Settlement

Oct. 26, 2017

Acquisition closed December 18, 2017

Public Benefit

PA PUC policy promotes settlements



Settlement resolved all the issues

Public Benefit

- Promotes PA PUC policy favoring regionalization and consolidation of water and wastewater systems
- Addresses environmental deficiencies and operate the System in an environmentally-friendly manner
- Spreads fixed costs across a larger asset platform and customer base is positive toward the company's credit and credit ratings, which facilitates borrowing at lower interest rates
- Expertise and economies of scale

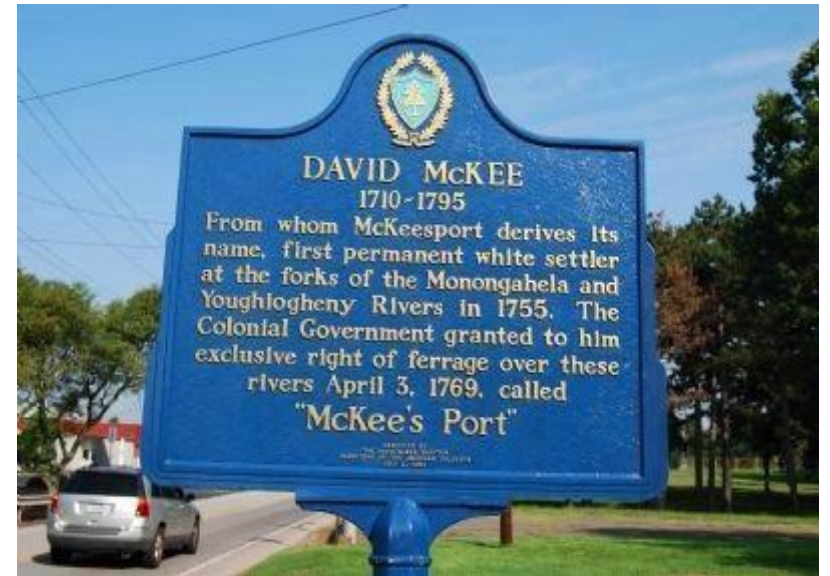
Municipal Authority of the City of McKeesport Benefits

- ✓ Repay PENNVEST grant
- ✓ Repay loans
- ✓ Employees protected
- ✓ Achieved goal of getting out of the utility business
- ✓ Operational efficiencies
- ✓ Compliance expertise



City Benefits

- ✓ Avoid insolvency
- ✓ Balance City's budget
- ✓ Infrastructure improvements
 - Launched "McKeesport Rising Project:"
 - Eliminate blight
 - Increase street paving
 - New paving equipment
 - Safe market based investments
- ✓ Wastewater system property taxable
- ✓ City residents who were employees offered employment



MACM Customer Benefits

- ✓ Stabilize wastewater rates
- ✓ PUC regulated utility
- ✓ Gain protections of the Public Utility Code and PUC regulations
- ✓ Public Advocates-Bureau of Investigation and Enforcement, Office of Consumer Advocate and Office of Small Business Advocate
- ✓ Enhance customer service

Existing Wastewater Customer Benefits

- ✓ No impact on rates
- ✓ Added substantial number of new customers who can share cost of operating entire PA American Water wastewater systems
- ✓ Promotes public policy goals embodied in Section 1329
- ✓ Promotes public policy goal of improving and maintaining public infrastructure



PENNSYLVANIA
AMERICAN WATER

THANK YOU